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in the American and foreign markets. The Germans would save time and expense in being relieved of the necessity of rebuilding their own sales organiza-

tion, while American interests would profit by being able to control to some extent the basis of competition with American industry at home and abroad.

## The Chinese Consortium and American Trade Relations with China and the Far East

By THOMAS W. LAMONT  
J. P. Morgan and Co.

EXAMINATION of American trade relations with the Far East and the problem of their future development along peaceful lines offer to manufacturers and merchants an interesting field of large opportunity, and to students and statesmen a realm of useful study. We front the Pacific basin with a great coastline and have in it the important outposts of Hawaii, the Philippines, Guam and our part of the Samoan group. Its trade on our Western coast, in Japan, in China, in the East Indies, in Australia and the South Seas is expanding rapidly, and each year must add to its volume and to the importance of our political, social and cultural relations to the nations which participate in it. In time there must be duplicated, possibly exceeded, all that has been done in the Atlantic basin. Therefore, there lies before us as a nation no more important problem than the ordering, in peace, of the part that we are to play, in our several relationships to it, in the Western ocean.

Survey—even cursory—of our past experience there is both instructive and interesting. Some excellent things disclose themselves, but the chief conclusions that came to me from my survey were, first, that our changing government had failed almost invariably to maintain a consistent or constant policy, either toward its neighbors or towards its own traders; and, second, that our commercial efforts had been

sporadic and not sustained. Probably the first inconstancy reacted upon the second, and it is likely that the extraordinary developments at home that followed the discovery of gold in California and our Civil War served to make us self-centered in our business effort. This alternate development and contraction is curiously exemplified by our commercial experience with China where our trade has moved in a series of definitely marked cycles. We began there with the romantic and inspiring era of the clipper ships which, sailing chiefly from New England ports, began in colonial times to trade with China. Slow at first in expansion, our trade finally grew in importance. After that, in the middle of the last century, came the period of the great American hong or business houses in China, established by merchants from New England and New York. These hong, after years of extraordinary prosperity, one by one, surrendered the field to British and European traders, no doubt because American ships had by that time disappeared from the sea and without ships competition with the Europeans was impossible.

There was still another era, developed first by the enterprise of our western merchants, and the Pacific Mail Steamship Company, supplemented later by the Canadian Pacific Railway, the late James J. Hill, and men like Robert

Dollar. The extension of Japanese steamer lines to our coast aided in its development, as did the events which flowed from Dewey's victory in Manila bay. This particular cycle contracted somewhat when the production of wheat and flour in Siberia curtailed our export trade in those products, and it was adversely affected by other circumstances. But a large volume of business continued and still continues from it.

It should be pointed out that our trade with Japan has followed an entirely different course, although the balance of trade there has almost invariably been against us. Beginning in the closing decades of the last century, trade has expanded until the United States is now Japan's best customer, and Japan in turn takes a large and assorted quantity of our products. The latest figures indicate that approximately 40 per cent of Japan's total export and import trade is with the United States.

It would appear that we are on the threshold of still another and greater era of commercial relations with China, and all the Orient. From every standpoint the situation is worthy of intelligent consideration, preparation and treatment. As to both national policy and the interest, organization and general equipment of our business men and corporations, we are probably in a more advantageous position than ever before. Yet it remains to be seen how we shall respond to the approaching opportunity. John Hay gave his genius and his name to our greatest constructive policy as to China, potentially the most important of the Oriental states; and his dictum of the "Open Door" and equality for all in China, of the preservation at the same time of the integrity and sovereignty of the old Empire, now changed to republic, has been extended by Knox and

Lansing until—in basic matters of economic development—it seeks to accomplish international coöperation in and for China, as opposed to international competition and rivalry.

#### PURPOSE OF THE CONSORTIUM

The Consortium for the assistance of China, recently organized, is the expression of the Hay policy as developed by his successors. Just as, a generation or two ago, there was the tendency of the great nations of the earth (except the United States) to encroach unduly upon the sovereignty and national assets of China, to take material advantage of the political weakness of that country, so the Consortium now offers itself as an offset to, and substitute for, that old policy. That was a nationalistic and political formula which in China was creating spheres of influence detrimental alike to the Chinese and to the happy development of commerce by the rival countries. The inevitable result of this process was to engender jealousies that were dangerous, especially when China, in evolution from monarchy to republic, was incapable of resisting aggression.

The investment groups composing the Consortium and the governments (American, British, French and Japanese) which urged its organization, hope that, by substituting coöperative for competitive effort, China can gain the support and development she needs at lower cost and at infinitely greater security to herself; that she can have opportunity to gain her stride; and that the reflex of all this upon the nationalities represented in the Consortium—or partnership—will be wholesome. The Consortium does not purpose to engage in private business or banking in China, but to concern itself with the larger basic enterprises like railways, highways, water communications, terminals, currency reform,

etc. If this program can be carried out—and there does not appear to be any good reason why it can not—the results will be of far-reaching influence and importance. In the first place, China needs better transportation and communication. She has good waterways, but they should be improved. Her seven thousand miles of railways, in a territory larger than the United States, are wholly inadequate. Great areas, many of them now highly productive, are shut off from one another, and some of them have no outlet of any kind. The adverse influence of this condition on the business of the country and upon the social and political life of the people is at once apparent. Adequate transportation and a sound currency would give a great impetus to agriculture, the chief industry of the country, permit the development of the practically untouched national resources, improve political conditions and give to all private enterprise the stimulus that comes from greater stability.

The Consortium is an expression of a new attitude toward China and the Chinese. Heretofore, with some notable exceptions, no one has been particularly concerned about the condition of China. From time to time efforts from outside, looking to change and improvement in China, have been made, but most people looked on with indifference, content to let matters take their own way. Some were cynical about it, others even preferred a weak China. But now, on the part of almost all the outside nations, there is a distinct desire to improve conditions and a growing realization that a stable, solvent, orderly China is a better neighbor and customer, and a less dangerous political entity, than a China, weak internally and externally, retrogressive, and the prey of governments and unscrupulous or grasping indi-

viduals. One of my cynical friends tells me all this arises because the invested and commercial stakes of the powers are now so large that they are becoming concerned lest they lose them. This fact may have some influence, because everybody's stake is large and the chances for everybody materially will be greater and better in an orderly, progressive China; but I refuse to accept it as the chief reason. My belief is that the new attitude bespeaks the greater enlightenment, the greater sense of human justice, the higher appreciation of the rights of our competitors that—despite the terrible setbacks of the Great War—have come to all nations in recent years.

#### NATIONAL CONSCIOUSNESS IN CHINA

China gives much promise of rising to the new opportunity that is opening to her. China, for years, clung tenaciously to her age-old traditions and customs while her nearest neighbor—Japan—was seizing all that was best in modern life. China lived in the past and was likened to a slumbering giant. But now that giant is awakening from the Rip van Winkle slumber that had run for nearer twenty centuries than twenty years. The giant is rubbing his eyes and opening them to new visions. There is a great growth of national feeling now going on in China, a feeling that, if we Americans encourage and assist it, is bound to liberalize, to modernize China. Among the universities there is close study of government and economics. Chinese students, who are the most apt students I have met in the whole world, are scattering throughout their country and spreading the gospel of better government, better living. We must not be misled by press reports of disorder and factional fighting in China. It is true that there is lack of organization, that the central government is not strong. It is less than ten

years since China shook herself free from the thrall of an ancient and absolute monarchy. She can not be expected to settle down into the grounded ways of a modern republic without occasional setbacks. The point to remember is that she is making steady progress. China, in her march towards stable self-government, has to traverse valleys as well as hills before she reaches the heights whence she can view the promised land of genuine stability.

#### AMERICAN OPPORTUNITIES IN CHINA

The thing to remember is that in China's march forward she is looking to America for her guide, her counselor and her friend. This feeling is due to several circumstances—one, the renunciation for almost twenty years by the United States of her share of the Boxer indemnity, a good part of this fund having been devoted to the education of Chinese students in America. A greater reason for China's friendly sentiment is that the United States has never sought to exploit China nor dominate any part of her territory. While other nations have been making profits from their trade with China, America has poured millions of dollars into the work of medical missionaries and the improvement of sanitary conditions in China. The new and wonderful medical school and hospital, erected in the center of Peking by the Rockefeller Institute, alone cost six million dollars, and its endowment will require another half million dollars per annum. The Chinese are intensely human. Of course they appreciate such a spirit of sympathy as has been shown by America; they give us their confidence. This confidence is a business asset to America, and such a confidence must never be abused. Rather, it must be fostered by high commercial ideals.

I never imagined—until I went out there—a region calling for the products

of American industry so strongly as China will call in the next twenty years. A great system of railways must be built, and its inception should not be long delayed. Those railways will require a fair share of American steel, of American bridges and of American equipment. The country calls for electrical equipment, for all the multitudinous forms of farming implements required in that intensely agricultural land, now cultivated with the rude implements of the long ago. China will demand cotton mill machinery on a greater scale, and machine-making tools. Then it will require quantities of mining machinery for both the baser and the precious metals. Finally, those four hundred millions of kindly, honest and highly intelligent people will require, on a prodigious scale, the many domestic appurtenances that American ingenuity has evolved. Americans will find many attractive opportunities to engage in various enterprises in China, in coöperation with the Chinese. We can give them experience in engineering, manufacture, machinery and organization; they can be tremendously helpful as to labor and the various local problems that an inexperienced foreigner does not understand; they also can furnish their share of the capital. Several such enterprises are operating and the results are most promising.

#### MILITARY PARTY AND LIBERALS IN JAPAN

It is difficult to discuss the future trade and financial relations of the United States and Japan without considering the political relations. We are hearing a great deal of Japan these days, some of it good and some of it bad—some of it true, much untrue. Scores of people have asked me since my return: What is the real Japan? I find a tendency on the part of

most people to be either intensely pro- or anti-Japanese. Now the truth is that no one can meet the Japanese upon intimate terms and leave them unmoved by admiration and friendship. At the same time, no one studying their conditions can fail to detect certain serious defects in their government and political institutions. It is not true that Japanese men of business are sharp and untrustworthy. The Japanese business men are not as frank as we are. They want to be, but they do not know how. For generations they have been taught reserve. It is bred in the bone and in the flesh. But I want no more honest person to deal with than the Japanese business man. As far as he alone is concerned, you can well afford to trust him and to enter into important relations with him. Japan is commercially today under a handicap which I should hardly attempt to analyze if it had not been done for me by the Japanese themselves. This handicap is the policy of the so-called Military Party which, of recent years, has been so strong as almost to constitute an actual supergovernment.

There are two schools of thought in Japan and the cleavage is a deep one. In general, the men of affairs—manufacturers, great merchants and bankers—are liberal in their ideas. They believe, as we do here in America, that a nation's development, to be sound and sure, must be along lines of peaceful trade and the cultivation of good will. The other party in Japan, the Militarists, have a somewhat different philosophy. They might not admit it, but if you study their actions you will realize that they still think the world is ruled by force rather than by ideas. They believe in a mighty army and navy. They are sincerely convinced that Japan's safety and future lie in having a dominating influence on the

continent of Asia. They have taken Korea and made it a part of Japan, incidentally improving its material condition distinctly. They hold Port Arthur. They took Shantung from the Germans in the recent war and up to date seem to have Japanized it far more completely than it was ever Teutonized during the years that Germany held it. They have occupied Vladivostok on the Siberian coast; they control the mouth of the Amur River and they have recently over-run the Russian half of the island of Saghalien. In reciting this I am not criticizing: I am merely summarizing what the newspapers have told us hundreds of times.

The Japanese Military Party have pursued this policy on the theory that in these measures lay the only sound defense of national safety that Japan could devise. They sincerely feel that to make a food supply certain for their growing population domination of a part of Asia is necessary: ordinary trading is not secure enough. This is a political philosophy which is perfectly understandable. But in the pursuance of its policy, according to the liberals in Japan, this Military Party seems to have overlooked certain economic considerations. Their efforts in China, their expeditions to Siberia have been enormously expensive. And the increase of the navy and the maintenance of the army are a serious burden upon the people of Japan. Her national debt is inconsiderable, but her taxes are heavy, and an extraordinary proportion of her budget is for the military establishment. Japan is not a rich country in natural resources, and her people can not afford these heavy outlays unless they bring in compensating dividends. They do not. On the contrary, they seem to bring liabilities. For instance, because of Japan's "twenty-one demands"

served on China in 1918, and because of her action as to Shantung, there has been an intense boycott of Japanese goods throughout China. Japan has lost—at any rate, for the moment—a part of her most valuable foreign trade. As one of her leading government officials said to me, in Far Western slang, “We are in terribly Dutch in China. By becoming partners in the new consortium with Americans, who are popular in China, we hope now to fare somewhat better.”

Meanwhile, Japan would welcome American capital on a large scale to develop her own industries. She has a limited supply of coal and is anxious to develop her water powers on a grand scale. She feels sorely the need of building good roads and of constructing new trolley lines. The United States will, as time goes on, be in a position to supply a good part of this demand. Our investment community can furnish much of the capital; our manufacturers can supply much of the machinery and equipment that are needed. At the present time, however, the apparent policy of Japan's Military Party will prevent any such American coöperation on a grand scale. We shall continue to buy Japan's silks and trade with her along ordinary lines, but we shall hardly be encouraged to accept her invitation to coöperate actively in the development of her enterprises until we feel more assured that her Military Party is not going to bring her into additional financial distress. Japan just now can not afford an ambitious over-sea policy of expansion. Her business men realize this, and they are urging the Military Party to be guided by more conservative counsels. As soon as we see a constructive change in the foreign policies that I have described, then indeed we can well afford to invest largely in Japanese development.

Meanwhile, we must not forget that dating from the days of Commodore Perry, Japan has looked upon the United States as an old-time friend and helper. We must not overlook the wonderful material accomplishments that our nearest neighbor across the Pacific has made in the last fifty years. We must be tolerant in our judgments of nations as well as of man. The Japanese have a sincere and intense desire for the abiding friendship of our country, and no American can be long in Japan without warmly reciprocating that desire. There is every reason why the two nations should be on the closest and friendliest footing. Even the perplexing California question is susceptible of amicable settlement if only we Americans show a little tact and a respect for Japanese susceptibilities. The Japanese are one of the proudest and most ancient people on the earth. Their manners to foreign visitors are a revelation of grace and courtesy. They expect in return a little of that same deportment. It is not so much what we do on the immigration question, as the way we do it. Certainly to one who has gained an intimate glimpse of the Japanese, it would seem certain that, with any ingenuity at all, we ought to be able to devise a formula which would meet the views of California and at the same time measurably satisfy the Japanese.

#### OPPORTUNITIES IN SIBERIA

I have not mentioned Siberia, the great undeveloped Russian state on the Pacific. I believe John F. Stevens, the eminent American engineer who has been managing the Chinese Eastern Railway for the Allied governments, can describe its possibilities better than I can. I met him at Mukden in Manchuria on my way out of China. What he said to me was this:

I have come down from Harbin, a journey of seven hundred miles here and return, just to spend an hour with you and give you a message to the business men of the United States. That message is that they must never rest content until in Siberia the door of opportunity is surely kept open, so as to give free and equal trade opportunity to America and to all the other nations; so as to assist in the development of that wonderful region.

He, who had been working in that region steadily for three years, as you know, described to me in sober, restrained language its great resources as an agricultural, a timber and a mining region. "Siberia," he said, "is one of the great granaries of the world." It has for export great quantities of wheat. Hundreds of carloads of hides were waiting means for export. The forests are of immense variety and value. With exportable products that can be made available on such a grand scale, it is manifest that, in order to produce those commodities, the very things that Siberia requires are best made in America—harvesting machinery, mowers, reapers, tractors—and then more tractors. It is for our Government to keep open this door until the people of Siberia, with saner views than their Bolshevist brothers of European Russia, organize themselves politically, or until political conditions in all Russia become stabilized.

#### AMERICAN TRADE IN THE PHILIPPINES

An important factor of our trade with the Far East is the Philippine Archipelago. Under American occupation and inspiration, the industries

of the islands have been tremendously stimulated and there has grown up a flourishing trade with the United States. The islands need more capital in order adequately to develop their industries and important public enterprises. For instance, the Port of Manila should be extended and enlarged, more piers built; and there is need for a drydock capable of receiving the largest liners and freighters. The United States is the only country where the large sums of money necessary for these enterprises may be obtained, but because of existing political conditions in the Philippines American investors are chary about advancing them. The political leaders of the Islands are demanding independence from the United States. Naturally there is some misgiving about their ability as yet successfully to paddle their own canoe, and a realization that if they fail their control must almost inevitably pass to other hands, to peoples with political ideals, perhaps widely differing from those of the United States. If there could be assurance that American investments would be protected by stable government and just laws there would be no great difficulty in obtaining the money needed. Meantime, there must be considerable natural growth in this lucrative trade with the Philippines unless it is disturbed by adverse political conditions or controlled by a rival trading power.

We face in the wide stretches of the Pacific an opportunity and an obligation; as we are responsive to our obligations, so we shall realize our opportunities.